

W E L C O M E

**Quarterly Market Perspective
Year End 2004**



Intro music.

WELCOME

Quarterly Market Perspective Year End 2004

- **Bill Ebsworth**
Executive Vice President
Fidelity Institutional Retirement Services Company
- **Rick Spillane**
Executive VP and Head of Global Investment Strategy
Fidelity Management & Research Co.

Bill Ebsworth: Hello, and welcome to our Quarterly Market Perspective for the year end 2004. I'm Bill Ebsworth, Executive Vice President of Fidelity Institutional Retirement Services Company. Joining me once again is Rick Spillane, Executive Vice President and Head of Global Investment Strategy for Fidelity Management and Research Company. Welcome, Rick.

Rick Spillane: Hi, Bill. Nice to be with you again.

Bill Ebsworth: Nice to be with you. Thank you for joining us. We're going to do two things in this presentation. One, we'll walk through the markets for 2004 and the fourth quarter in particular, and then we thought we'd try something different based on feedback from our listeners. We're going to cover the bullish and bearish factors to consider as you look at each asset class, your target asset allocation, and rebalancing to get there in '05.

DOMESTIC AND WORLD EVENTS-2004

- U.S. Election Resolves Quickly
- Fed Raises Interest Rate 5 Times
- U.S. Dollar Weakness Continues
- Energy Prices Up Significantly
- Record Business Profits

Rick Spillane: So, Bill, let's get right into it. What did you see happening in 2004.

Bill Ebsworth: What an exciting year: a lot of uncertainty going into the U.S. election, concern that we'd have an unclear outcome, and happily for the markets, that wasn't the case; the Fed raised rates five times; U.S. dollar weakness continued but at a slower pace than we saw in '03; and energy prices were up significantly.

Rick Spillane: Whoa, whoa, Bill. If I was watching the nightly news, that's like three or four negative things there. I would think it would have been a terrible year for markets, but actually what happened was, companies responded with record business profits, no matter how you measure them, and the markets actually were pretty solid for the year.

2004 MARKET SUMMARY

- Stocks Beat Bonds for 2nd Consecutive Year
- International Equities Beat Domestic Equities for 3rd Consecutive Year – Helped by Weak Dollar
- Small Caps Beat Large Caps for 6th Consecutive Year
- Value Beat Growth for 5th Consecutive Year
- Energy was the Top Sector

Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.

Small-cap stocks are generally more volatile than large-cap stocks.

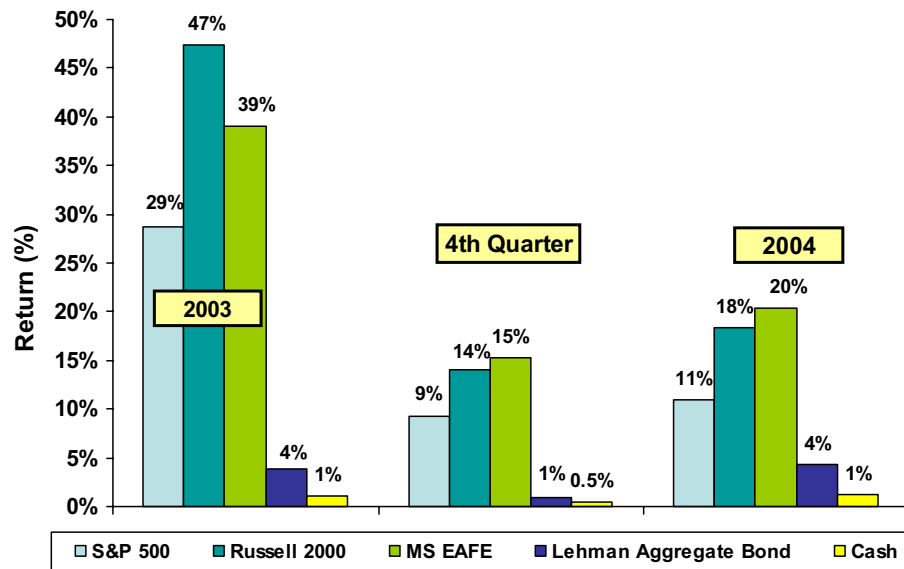
Past performance is no guarantee of future results.

Source: FARG Group, Fidelity

Bill Ebsworth: Yeah, Rick, that's a good segue. Let's talk about what happened in the markets.

Rick Spillane: Stocks beat bonds for the second consecutive year. International equities beat domestic equities for the third consecutive year, helped by a weak dollar. Small caps beat large caps for the sixth consecutive year. Value beat growth for the fifth consecutive year. And energy was a top sector. And although oil was the headline, really everything associated with energy - natural gas, coal, all these backup industries - driven by the oil price primarily, were really quite strong. And obviously markets were very comfortable taking on risk in 2004.

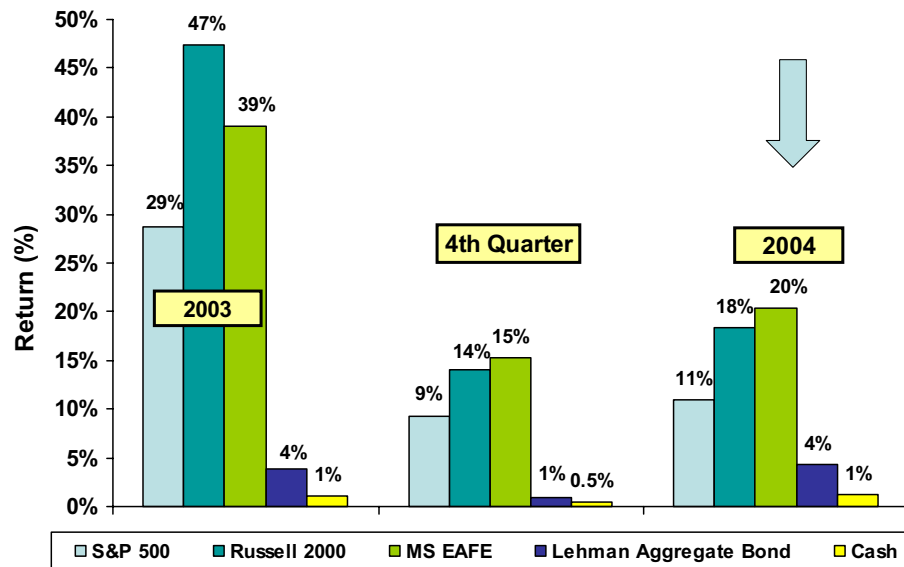
RECENT MARKET PERFORMANCE



Past performance does not guarantee future results.
You cannot invest directly in an index.

Bill Ebsworth: Let's turn to the numbers. Rick, it looks like most of the action was in the fourth quarter.

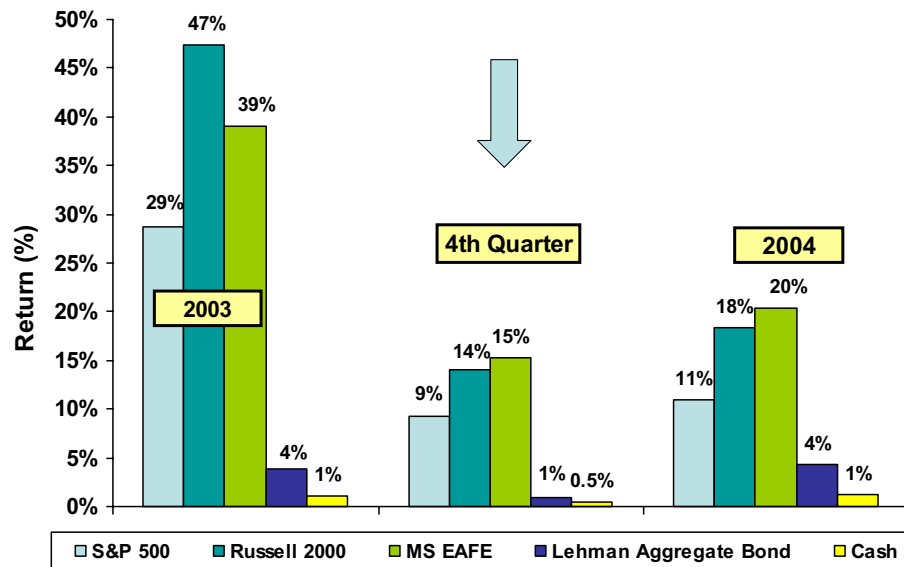
RECENT MARKET PERFORMANCE



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Rick Spillane: It sure was, Bill. For the year, the S&P 500 was up 11%, the Russell 2000 was up 18% and the MSCI EAFE Index or international markets were up about 20%. Bonds and stocks returned levels approximately 4% for bonds and a little bit over 1% for cash, pretty much like 2003.

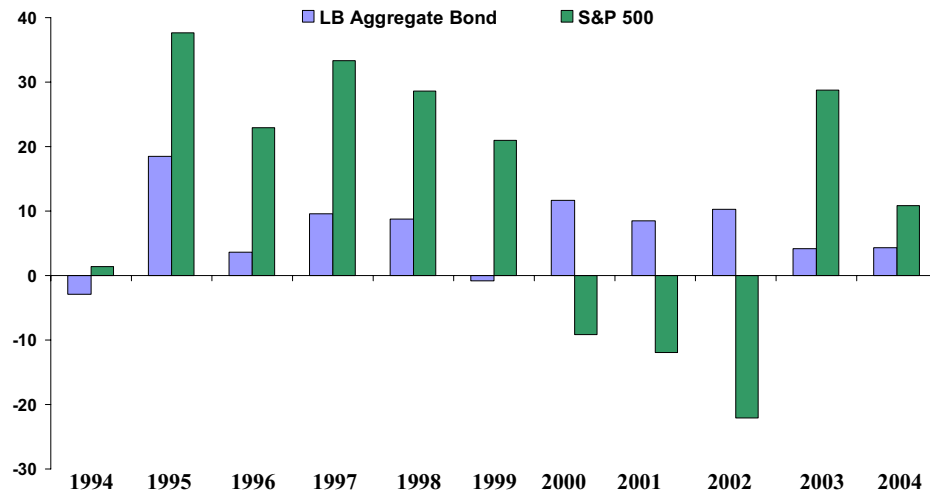
RECENT MARKET PERFORMANCE



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Rick Spillane: But like in a lot of stock market years, all the gains came in the fourth quarter. 70 to 80% of the returns were in the fourth quarter. Stock markets were strong and bond markets were pretty steady. In the returns, really a lot less than 2003 which was a dramatic recovery year, kind of off the bottom. But it does reinforce the fact that when stock market returns come, they tend to come in giant lumps. And you really have to be there, you really can't predict exactly when it's going to happen.

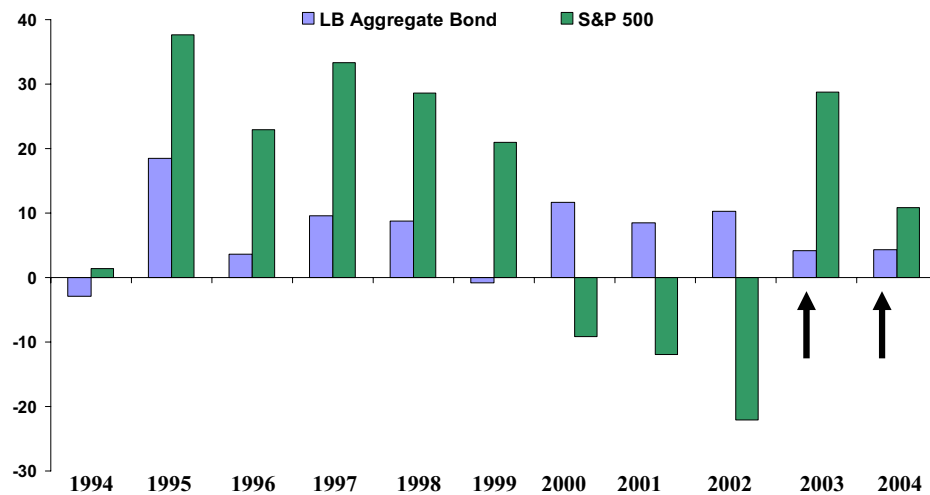
2004: A POSITIVE YEAR



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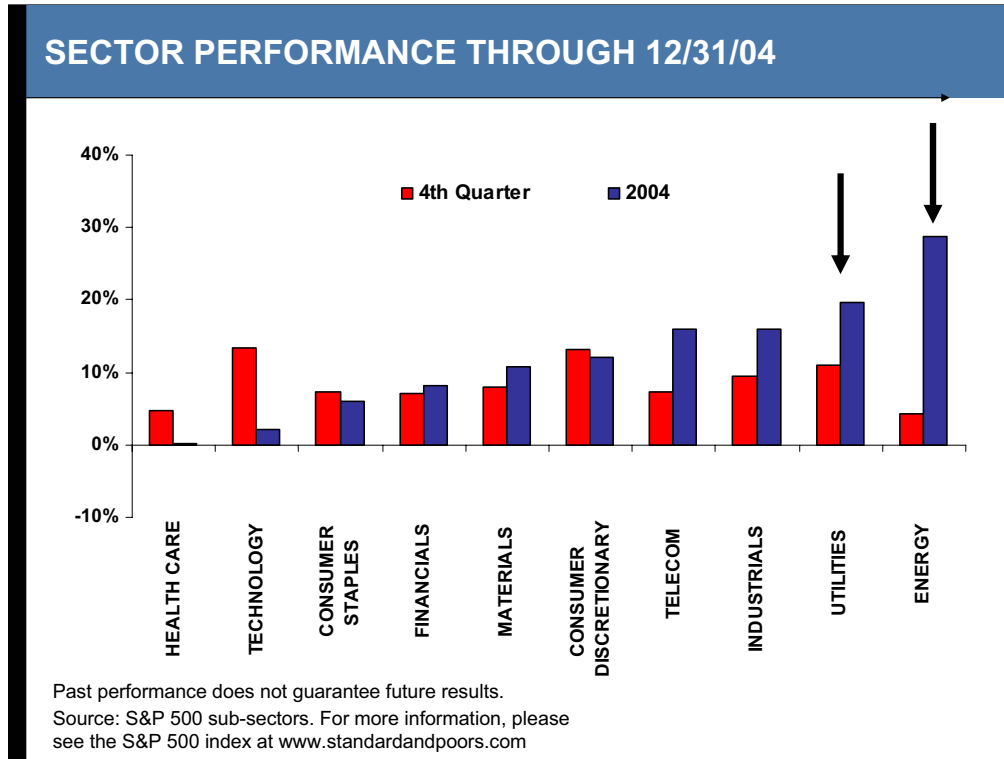
Bill Ebsworth: The big surprise this year is that bonds were up once again. That makes 9 of the past 11 years where you've seen positive returns from bonds. Even when they're down, they tend not to have the same extremes as stocks.

2004: A POSITIVE YEAR

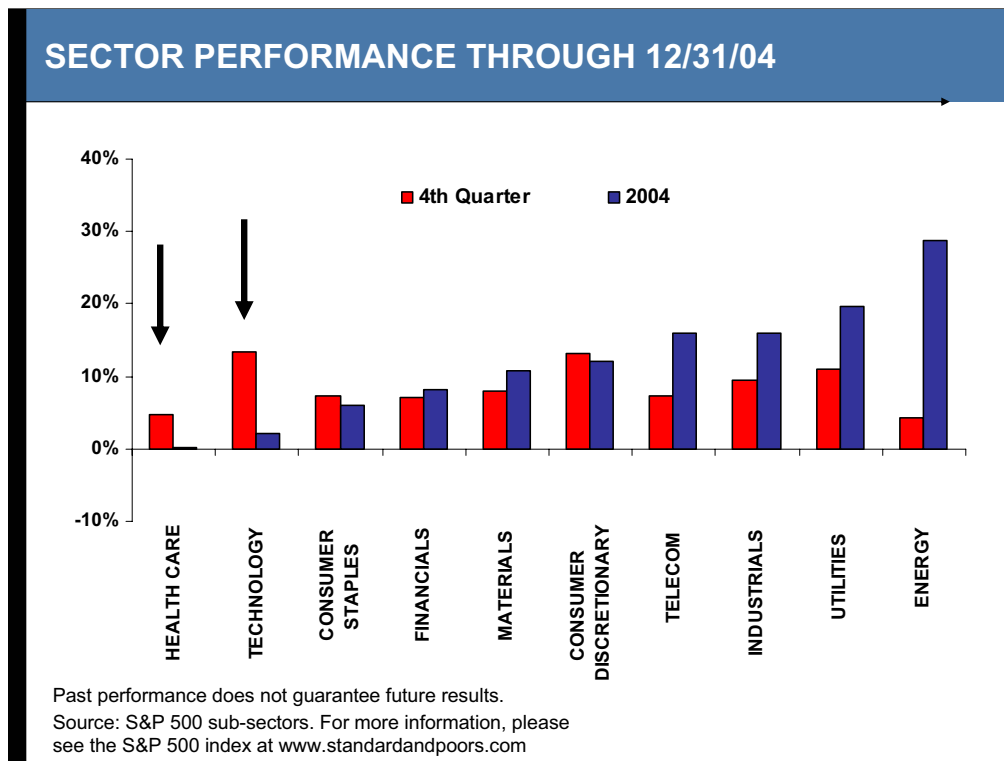


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Rick Spillane: What I'd say is happening in the last two years is more and more of the return on bonds is coming from interest payments as opposed to principle gains, i.e., the value of the bonds going up. But I like this chart because it shows sort of the yin and yang of stocks and bonds, and when you put together an asset mix it's something you want to keep in the back of your mind.



Rick Spillane: Looking at sectors last years, the energy stocks, as I mentioned before, driven by energy prices, were quite strong for the year. Utilities, which had the unique perspective of having benefited from both energy prices, and declining interest rates, also were very strong last year.



Bill Ebsworth: Healthcare was the big surprise, Rick. The consensus said that every time the Fed raises rates, it's usually a good time to be in healthcare, particularly pharmaceutical stocks. What happened there?

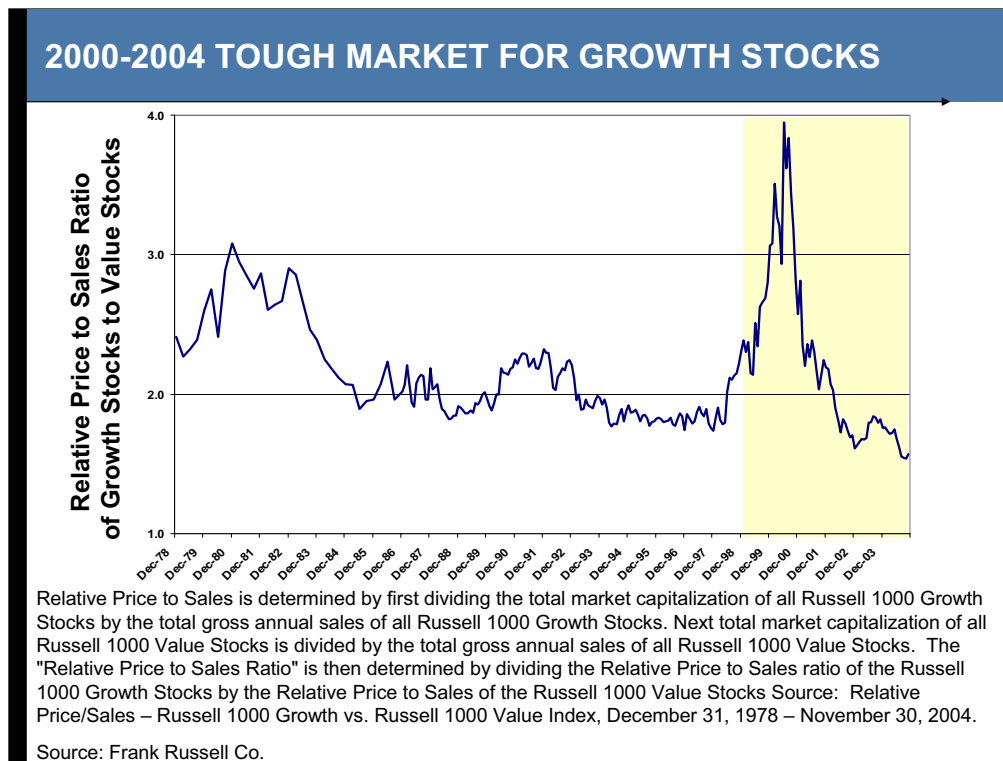
Rick Spillane: Well, stocks are driven by earnings, Bill, and there were a couple of huge earnings holes in the drug industry this year as the FDA had issues with some very prominent drugs on the market. It's also I find it interesting that technology was weak last year, but you have to remember it was quite strong in 2003, so from a comparison standpoint that was pretty tough, and it did rebound in the fourth quarter. There was a real disparity between semiconductors, which were very, very weak in that sector, and a lot of the other technology areas, which were actually pretty strong.

STYLE AND CAP PERFORMANCE

	2004	4 th Quarter	
	Value	Blend	Growth
Large	16.5% 10.4%	11.4% 9.8%	6.3% 9.2%
Mid Cap	23.7% 13.5%	20.2% 13.7%	15.5% 13.9%
Small	22.3% 13.2%	18.3% 14.1%	14.3% 15.1%

Past performance does not guarantee future results. Data as of 12/31/04. The above styles are represented by the following indexes: Large-cap value – Russell 1,000 Value; Large-cap blend, Russell 1,000; Large-cap growth – Russell 1,000 Growth; Mid-cap value – Russell Mid-Cap Value; Mid-cap blend – Russell Mid-Cap; Mid-cap growth – Russell Mid-Cap Growth; Small-cap value – Russell 2,000 Value; Small-cap blend – Russell 2000; Small-cap growth – Russell 2,000 Growth. You cannot invest directly in an index.

Bill Ebsworth: Turning to style and cap performance, as Rick mentioned, this was the sixth year where small cap beat large cap and the fifth year where value beat growth. So a lot of contrarians are looking up in the top right hand corner for opportunities in large growth stocks.



Rick Spillane: Let's take a look at this, Bill, because it's been a very tough market for large caps, between 2000 and 2004. This chart's a little complicated, so bear with me for a second here while I go through it. What it does is compare the price to sales ratio for growth stocks versus value stocks.

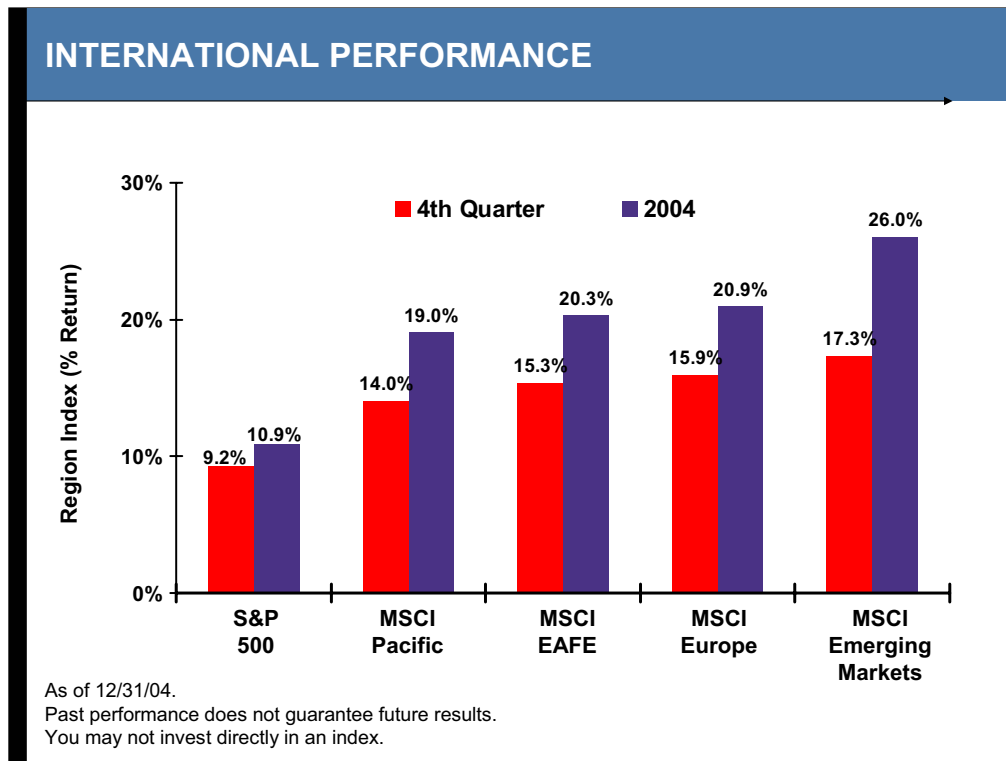
Now growth stocks trade at a premium to value stocks. People think they are going to grow faster. They usually command a higher price. So what we're talking about here is the relative amount of premium that people pay for growth stocks.

This chart compares the price to sales for growth and value. You can see, it's been pretty steady at around 2 for most of the mid '80s to late '90s - big blowout during the dot.com era when large cap growth stocks became incredibly popular. Blew up to almost four. And then, has really been, as we've highlighted in the yellow area, very tough time in the last four years, to the point where some people think it may have over-corrected, actually. We're down to a ratio of about one and an half.

So growth, to some market observers at least, appears to be on sale. But we'll find out going forward whether that's true or not.

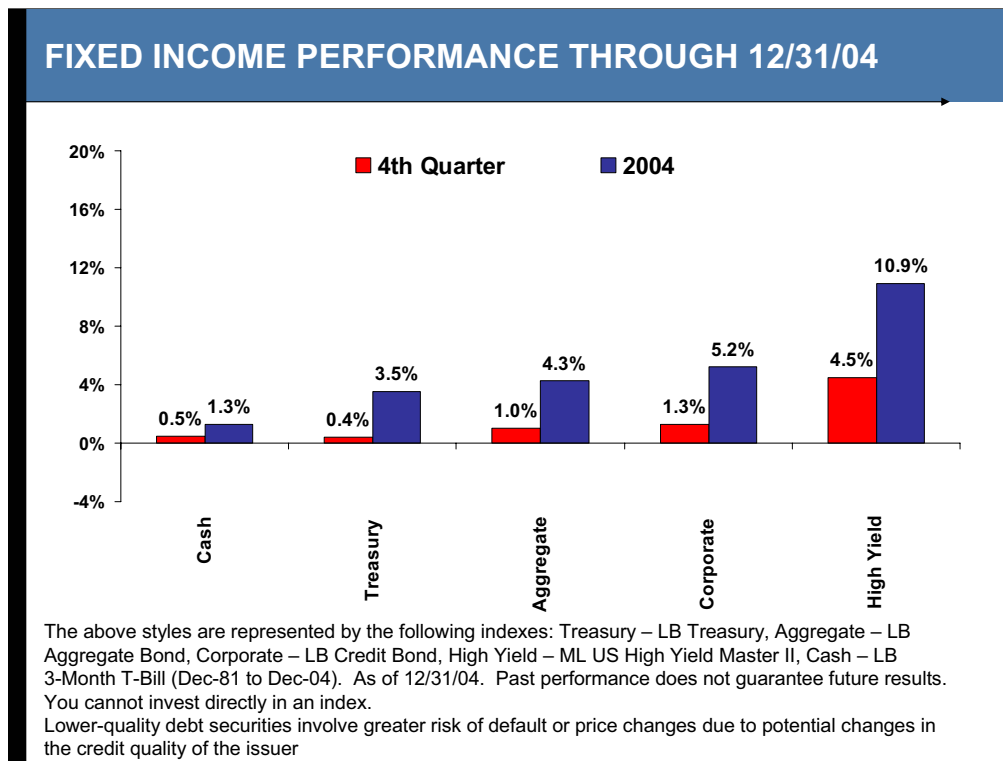
Bill Ebsworth: And even the bulls say you can wait a long time for charts like this to return to mean.

Rick Spillane: Absolutely.

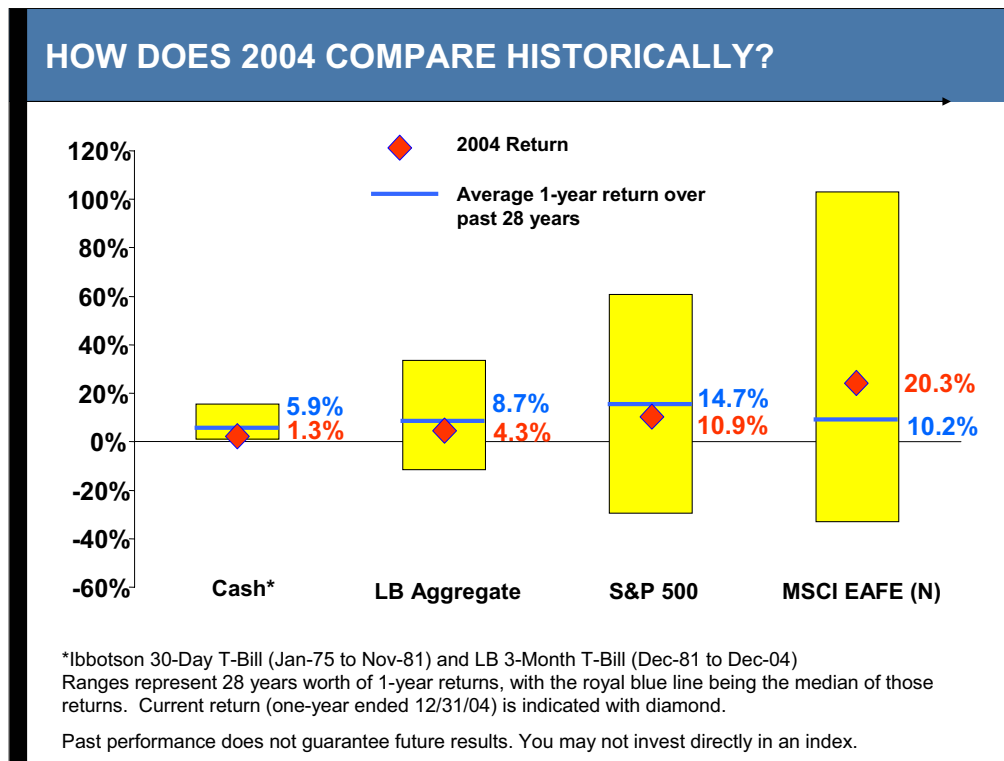


Bill Ebsworth: Turning to international, once again international beat the U.S. markets this year. Underlying the numbers there were a couple of factors at play. The weak dollar accounted for some but not all of the returns, and that really depends on which country you were invested in. Energy and materials helped the European stocks and, Rick, as you mentioned, people were more comfortable taking on risk. You want to talk about emerging markets?

Rick Spillane: Yeah, Bill, the emerging markets were all strong this year. People are very familiar with the headlines, I think, on India and China, but they may have missed the fact that Latin American and Eastern European markets were also strong last year.



Bill Ebsworth: Similarly, in fixed income, your riskiest asset class, high yield, led the way. And cash brought up the lagging position. Markets were comfortable taking on the risk in buying debt from high yield or less creditworthy issuers, and you saw returns approaching nearly 11% for the high yield market. Corporates and treasuries - your returns were basically your coupon. You didn't see a lot of appreciation or depreciation in the principle value of the bonds.



Rick Spillane: So let's take a look at how 2004 compares with say the 28-year averages on various asset classes.

So, here on this chart we have the returns on asset categories, ranked from, on the left, least risky, cash, to on the right, most risky, international securities.

The yellow bars represent the variability in year to year returns, so how much can lose or gain in any individual year. The blue lines represent the median returns over 28 years. And the red diamonds indicate the returns in 2004.

So you can see cash is returning almost nothing, but it's well below its 28-year average. Bonds had a good year, up 4.3%, but it's below their average, over 28 years. The S&P 500 was up almost 11%, which is again below its 28-year average. The only exception here was international stocks, which basically doubled their 28-year average.

I think we've been making the point that international stocks had some catch up to do, and they have been catching up over the last few years. But it does make the point, I think, here that mixing and matching these asset categories is what I think is key to a successful investment strategy.

2004 Year End Bull / Bear Review



Bull/Bear Review represents a sampling of factors to consider, not a comprehensive list of all risks inherent within each asset class.

Bill Ebsworth: Well, based on suggestions from listeners, we're going to try something new this year, reviewing the bull and bear factors to consider when you're looking at each asset class.

Rick Spillane: These are things you may want to weigh in considering your investment and how you approach your investments going forward, but remember, Fidelity thinks a diversified portfolio is best for the vast majority of investors.

CASH

Bullish

- Principal Risk is Low
- Benefits from Inflation Uptick
- Liquidity and Flexibility

Bearish

- Historically Low Current Returns
- Underperforms Long Term

Past performance is no guarantee of future results.

Rick Spillane: So, let's look at the first one, cash. It's pretty simple. Principle risk is very low here. It tends to benefit immediately from an uptick in inflation because short term interest rates tend to move first, and an increase in short term interest rates will improve the return on cash, and it has the most liquidity and flexibility for short term needs.

Bearish points on cash, the low current returns, 1-2% generally. Cash underperforms other major asset categories going forward. So this is really a safety kind of thing, Bill, but I think it's important to remember that you should always have some cash around for your spending and some flexibility in your portfolio decisions going forward.

BONDS

Bullish

- Nominal Yields Highest of Any Asset Class
- Benign Inflation Outlook
- Fed is Acting to Raise Short-Term Rates

Bearish

- Yields Lowest in 40 Years
- Risk Premiums at Historic Lows
- Hedge Fund Factor

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Bill Ebsworth: I agree. Turning to bonds, the bullish case is that bonds' nominal yields are the highest of any asset class, and that's the headline yield that you see. Experts sometimes speak of the real yield, which is what you have left over after inflation. The inflation outlook appears benign at this point, and in part that's because the Fed is acting to head off inflation by raising short-term rates.

The bearish factors to consider when looking at bonds are yields are near their lowest in 40 years, and risk premiums are at historical lows. That sometimes indicates you've got complacency in the market; never a bullish factor. Also, new players like hedge funds, using derivatives and leverage have injected more risk into the system.

U.S. STOCKS

Bullish

- Record Corporate Earnings
- Benign Inflation Outlook
- Balance Sheets Strong
- Dividend Payouts Low

Bearish

- Rate of Earnings Growth Has Peaked
- Valuations Above Historic Average
- Post Bubble Worries Have Lessened

Past performance does not guarantee future results.

Rick Spillane: Looking at U.S. stocks, we have record corporate earnings. Companies are reporting more earnings than they have before either on any measure, on aggregate measure, on a per share basis. As you mentioned before, the inflation outlook is benign. That's good for PE ratios or valuations on U.S. stocks. Balance sheets are very strong for U.S. companies and dividend payments are low.

Bearish factors, the rate of earnings growth has peaked from a very depressed level of the sub par economy a couple of years ago. Valuations are above the historic average, if you just average PEs over time, although some would argue pretty reasonable given levels of interest rates. And lastly, my perception is that the post bubble worries have lessened. People have gotten more comfortable investing in the market, where after the 1999 stock market crash people were very nervous about investing in stock markets. Now I wouldn't say they're euphoric, but they're certainly more comfortable investing in markets, which actually I would list as a bearish factor.

U.S. SMALL STOCKS

Bullish

- IPO Cycle Heating Up
- Lots of Companies to Pick From
- Flows Strong into Small Cap Funds

Bearish

- Valuations High vs. Large Caps
- Can Lag When Economy Slows

Investments in smaller companies may involve greater risks than those in larger, more well known companies. Past performance is no guarantee of future results.

Bill Ebsworth: Turning to U.S. small stocks, some of the bullish factors are the IPO or initial public offering cycle is heating up. And that was helped in no small part by Google's successful offering late in 2004. There are lots of companies to pick from, literally thousands. So even if the category underperforms, stock pickers will find opportunities in small stocks. And, while it could reverse, flows are currently strong into small cap funds across the industry.

The bearish case is that relative to history, small cap valuations are rather high against their large cap brethren. And small caps can lag when the economy slows. One rule of thumb I learned early in my career is that smaller companies are generally the first to benefit when the economy picks up and the first to lose as the economy slows down or even goes into a downturn.

INTERNATIONAL STOCKS

Bullish

- Benefits from Weak Dollar
- Valuations Still Below U.S. Markets
- Flows Strong into International Funds

Bearish

- Get Hurt With Strong Dollar
- Relies Heavily on Exports
- China: Will it Continue?

Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.

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Rick Spillane: Well, Bill, switching to international stocks, I think the bullish factors here are that these stocks benefit pretty clearly from the weak dollar. They just get priced back into more dollars on the translation basis. The valuations on international markets in general tend to be still below U.S. markets, and there's a strong flow of funds into the international markets.

On the bearish side, notice I put the dollar on bullish and bearish here, because I think the dollar is very, very difficult to forecast and the international markets rely much more on exports than the U.S. market does, so if there's anything to disrupt the export market, I think that could have an effect on international markets.

Bill Ebsworth: And Rick, what do you mean about China? Most people would say China is a bullish factor.

Rick Spillane: With most emerging countries, what you find is that growth over time is good, but it comes in fits and starts. So I think if China should slow down dramatically, I think that could be not a positive for the international stock markets.

WHAT TO DO NOW

- Establish/Review your target asset mix by logging on to NetBenefitsSM and use the online tools or contact a Fidelity representative
- Review your “target” asset mix and rebalance regularly
 - By buying or selling
 - By changing where your new investments are being invested

Neither diversification nor asset allocation ensures a profit or guarantees against loss.

Bill Ebsworth: Great point, Rick. And we've given people a lot to consider. So the question is, what do you do now? That's relatively easy. Log on to NetBenefitsSM or Fidelity.com. There you will find some very good online tools and a recent webcast we did on asset allocation. Establish or review your target asset mix and then check that against where you actually are now, and if necessary rebalance. You can do that by buying or selling, or by changing where your new investments are being invested. That about wraps up this review. Thank you very much, Rick.

Quarterly Market Perspective Year End 2004

- Share your feedback
 - **Fill out the survey**
- Next Quarterly Market Perspective
 - **Early April 2005**



Rick Spillane: You're welcome, Bill.

Bill Ebsworth: And thanks for tuning in. We'll see you again in early April.

INDEX DEFINITIONS

The S&P 500® Index is an unmanaged index of the common stock prices of 500 widely held U.S. stocks. Standard & Poor's calculates the market prices of these stocks, including the reinvestment of dividends, as a way to track the performance of the stock market in general.

The Russell 2000® Index is an unmanaged index composed of the 2,000 smallest securities in the Russell 3000 Index and includes reinvestment of dividends. It represents approximately 11% of the Russell 3000® Index.

The MSCI EAFE Index (Morgan Stanley Capital International Europe, Australasia, Far East Index) is an unmanaged index and includes the reinvestment of dividends. It is designed to represent the performance of developed stock markets outside the United States and Canada.

The Lehman Brothers Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

Lehman Brothers 1-3 Year Treasury Bond Index is an unmanaged market value-weighted index of debt obligations issued by the U.S. Treasury with maturities between one and three years.

The Lehman Brothers Corporate Bond Index is an unmanaged market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

The MSCI Europe IndexSM is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of September 2002, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The MSCI EMF (Emerging Markets Free) IndexSM is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of April 2002 the MSCI EMF Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

The Russell Midcap® Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

Bill Ebsworth: In the meantime, please share your feedback.

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The Russell 1,000 Index is a comprehensive large-cap index measuring the performance of the largest 1,000 U.S. incorporated companies. It is reconstituted completely on an annual basis to ensure the index measures the large cap segment consistently and objectively over time.

The Russell 1,000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 1,000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell Midcap[®] Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 26% of the total market capitalization of the Russell 1000 Index. As of the latest reconstitution, the average market capitalization was approximately \$3.3 billion; the median market capitalization was approximately \$2.5 billion. The index had a total market capitalization range of approximately \$9.8 billion to \$1.2 billion.

The Lehman Brothers 3-Month Treasury Bill Index is an unmanaged market value-weighted index of investment-grade fixed-rate public obligations of the U.S. Treasury with maturities of 3 months. It excludes zero coupon strips.

The Merrill Lynch High Yield Master II Index is an unmanaged market value-weighted index of all domestic and yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default.

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Bill Ebsworth: We read it, appreciate it, and act on it. Thanks again.

INDEX DEFINITIONS

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The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2,000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Morgan Stanley Capital International Pacific Basin Index is an unmanaged market capitalization-weighted index of approximately 400 stocks traded in six Pacific-region markets.

The Russell 2000 Index is an unmanaged market capitalization-weighted index of 2,000 small company stocks of U.S. domiciled companies.

Lehman Brothers 90-Day US T-bill Index is an unmanaged index consisting of the most recently issued 90-day US T-bill. The T-bill remains in the index until the next 90-day US T-bill is issued and settled at which point the old T-bill is removed and the newly issued one is installed.

Bull/Bear Review represents a sampling of factors to consider, not a comprehensive list of all risks inherent within each asset class.

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The information presented reflects the opinions of Rick Spillane and Bill Ebsworth as of 1/5/05 and do not necessarily represent the views of Fidelity Investments. These opinions are subject to change at any time based on market or other conditions. These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security, sector, or investment strategy. Please consult your tax or financial advisor for additional information concerning your specific situation.

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THANK YOU

**Quarterly Market Perspective
Year End 2004**



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